



## ZIMBABWE EZEKIEL GUTI UNIVERSITY

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### FACULTY OF LAW BUSINESS INTELLIGENCE AND ECONOMICS

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DEPARTMENT OF ACCOUNTING FINANCE AND HUMAN CAPITAL MANAGEMENT

#### EXAMINATION PAPER

COURSE CODE : CAC 222  
COURSE TITLE : AUDIT PROCESS  
SPECIAL REQUIREMENTS : NONE  
DURATION : 3 HOURS  
LEVEL : 2.2  
DATE :

17 OCT 2023

#### INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Use of silent non programmable calculators is allowed.
3. Answer any **ALL** questions in both Section A and in Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets [ ]

**SECTION A [30 Marks]**

**ANSWER ALL QUESTIONS (Each question carries 2 marks)**

**SELECT THE MOST APPROPRIATE ANSWER**

**Question 1**

1) An attitude that includes a questioning mind and a critical assessment of audit evidence is referred to as:

- A. Due professional care
- B. Professional skepticism
- C. Reasonable assurance
- D. Supervision

2) Which of the following statements correctly describes the auditor's responsibilities in accordance with ISA 240.

- A. the Auditor is responsible for the prevention and detection of fraud and error
- B. the Auditor is not responsible for the prevention of fraud and error but is responsible for detection.
- C. the auditor is responsible for obtaining reasonable assurance that the financial statements are free from material misstatements whether caused by fraud or error
- D. the auditor is responsible for detecting all errors and should attempt to detect fraud where information comes to light as a result of standard audit procedures.

3) Qualified audit report means -----

- A. clear report
- B. non- submission of report

C. testing

D. internal control

8) ISA 200 requires that the auditor obtains what level of assurance about whether the financial statements are free of material misstatements

A. medium

B. absolute

C. reasonable

D. moderate

9) -----means an enquiry into the value, ownership, title, existence, possession and presence of any charge on the assets

A. ratio analysis

B. verification

C. recording

D. bookkeeping

10) Which of the following statements relating to Internal and external auditors is correct

A. external auditors report to those charged with governance

B internal auditors can never be independent of the company

C internal auditors are required to be members of a professional body

D internal auditors should be able to determine the scope of their work not to be determined by those charged with governance.

11) Which two of the following should be included in an audit engagement letter?

i) Objective and scope of the audit

ii) Results of previous audits

iii) Management responsibilities

iv) Need to maintain professional scepticism

A i) and ii)

B. i) and iii)

C. ii) and iv)

D. iii) and iv)

12) Internal auditor is appointed by-----

A. the management

B. the shareholders

C. the government

D. the statutory body

13) Professional skepticism requires that the auditor assumes that management is

A. reasonably honest

B. neither honest nor dishonest

C not necessarily honest

D. dishonest unless proved otherwise

14) Which of the following are not objectives of auditing

A. ascertain the profit and preparation of P/L account, Balance sheet

B. detection and prevention of frauds and errors

C. give a true and fair view of financial amount

D. to submit the accounts to Government

15) An audit which is compulsory by the law-----

a) Government audit

b) Internal audit

C. cost audit

D. statutory audit

**(Total 30 marks)**

**SECTION B [70 marks]**

**ANSWER ALL QUESTIONS IN THIS SECTION**

**Question 1**

You are the audit senior for Hats Ltd. In previous years, your audit firm adopted a fully substantive approach to the audit of the financial statements. However, it has been decided that in the upcoming audit, the overall audit approach will place reliance on the company's system of internal controls.

**Required**

- a) Critically evaluate the alternative audit approaches highlighted above. **(6marks)**
- b) Assess **four (4)** controls that you would expect within Hats Ltd system of Internal controls to allow the planned audit approach to be effective. **(4marks)**

**Read the following scenario and answer the questions below**

Pearl Ltd offers design solutions to large retail companies. It creates products tailored to customer specifications using computer controlled machinery and coating materials. The company values its inventory at the lower of cost or net realizable value. It's reporting year end date is 31 December 2020. You are an audit trainee and your team will be observing the Pearl Ltd year end physical inventory count to ensure proper cut off of purchases and sales.

**Required**

- c) Recommend key audit procedures that should be performed in advance of attendance in the inventory count. **(6 marks)**
- d) Assess why observations of the inventory count are essential to ensure proper cut off. **(4 marks)**

**(Total 20 marks)**

D. to submit the accounts to Government

15) An audit which is compulsory by the law-----

a) Government audit

b) Internal audit

C. cost audit

D. statutory audit

**(Total 30 marks)**

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**(Total 20 marks)**

## Question 2

Read the following scenario and answer the questions underneath

You are the senior auditor of A1 audits and you are planning to audit Pharmaceuticals Ltd. A1 Audits has audited Pharmaceuticals for the past fifteen years. The scope of the audit has grown substantially over the last number of years resulting in significantly increased audit fees.

The audit fee from last year for Pharmaceuticals is still outstanding but directors suggest it will be paid in the coming month. Pharmaceuticals is hoping to expand and is considering the purchases of a biotechnology company, Bogas Ltd which is heavily invested in research and development.

The finance director of Pharmaceuticals has asked your firm for advice regarding this acquisition from a taxation and corporate finance view point and has offered to pay fees for the service on a contingency basis. Bogas Ltd approached your firm last year for corporate financial valuation work and a value of \$3 million was placed. The finance director of Pharmaceuticals has requested that the audit parties of AI audit attend the company's next monthly board meeting. The audit partner's son has also recently been appointed as a Marketing assistant in Pharmaceuticals on a full time basis.

### Required

- i) Prepare a memorandum for your manager illustrating clearly the ethical issues presented by the above scenario. Evaluate the threats to Independence and recommend the safeguards if any that could be used to reduce the threats to an acceptable level. (12marks)
- ii) Recommend the appropriate audit response where an auditor discovers fraud on a client audit engagement. (8 marks)
- iii) Describe the auditor's responsibilities in relation to the prevention and detection of fraud and errors (5 marks)

[Total 25 marks]

### Question 3

Auditors are required to obtain sufficient appropriate audit evidence. Test of controls and substantiate procedures can be used to obtain such evidence.

- i. Define a test of control and substantive procedures. (5 marks)
- ii. Describe the type of procedures for obtaining audit evidence (5marks)
- iii. Identify and explain any five (5) financial statements assertions relevant to class of transactions and events for the year under Audit. (5 marks)
- iv. List and explain five factors that will influence the auditor's judgment regarding the sufficiency of the evidence obtained. (5marks)
- v. Explain the purpose of an engagement letter and indicate its purpose. (5marks)

(Total 25marks)

**END OF EXAMINATION QUESTION PAPER**

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